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SUBJECT: Who's Taking over Djem Bank?

Ref: Minsk 955

**¶1. Summary:** Since late July the GOB has been exerting heavy pressure on foreign owned Djem Bank. The National Bank of Belarus admitted it misused the law to take control of the bank. It then revoked a number of Djem's licenses, demanding the bank return USD 16.5 million it loaned abroad to Belarusian territory. Two senior Djem officials have also been arrested, one for the fourth time. While this appears to be a simple case of the GOB taking over another business, Djem Bank blames its problems on a shadowy western conspiracy. Meanwhile a Russian buyer has appeared, who wants to purchase a controlling stake in the embattled bank, adding another layer of confusion. End summary.

The State Takes Control

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**¶2.** On July 25 the National Bank of Belarus (NBB) invoked a clause of the Law on Economic Insolvency to take control of Djem Bank and temporarily pass management of the bank to a rival, BelGazpromBank. After Djem Bank filed an appeal with the Supreme Economic Court (which was denied September 8), the NBB admitted that Djem Bank was not bankrupt or facing financial difficulties, but that this was simply the easiest means of gaining control of the bank (reftel). On August 9 the NBB passed management back to Djem Bank, but implemented restrictions preventing the bank from: conducting banking transactions in rubles, clearing foreign currency transaction, receiving deposits from corporations, opening accounts, offering banking guarantees, managing trust capital, and issuing new bank cards. On August 10 the NBB announced it would immediately drop all restrictions if Djem Bank returned USD 16.5 million it had lent abroad (to unnamed U.S. and Kyrgyz firms) to Belarus. The NBB argued it was protecting Djem Bank's shareholders after the bank made high-risk loans with their deposits. NBB Chairman Pyotr Prokopovich told a press conference August 29 the NBB had been asking Djem Bank to increase its deposits in Belarus since 2001, but that the bank had instead been moving its money from Montenegro, to Russia, to Kyrgyzstan's AziyaUniversalBank. On September 4 the Belarusian Securities Committee revoked Djem Bank's license for securities trading.

**¶3.** The State Control Committee arrested Djem Bank CEO Aleksandr Tatarintsev on August 10 for abuse of power (article 424 of the Criminal Code). The independent BelGazeta newspaper wrote September 5 its sources claim Tatarintsev was arrested for disbursing USD one million in dividends to share holders July 25 and 26, immediately after the NBB took control of the bank. Acting Director General Sergey Bliznyuk was arrested September 12 and charged with exceeding his authority/abuse of power (Article 426

Part 2 of the Criminal Code). Both remain in detention.

Western Plot or GOB Nationalization?

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14. Representatives of Djem Bank declined to meet with Econoff, stating all their views are included in recent press releases. The releases complain the bank's problems are all politically motivated. The bank claims a number of government officials and others are attempting to overthrow Lukashenko by forcing Djem Bank into illegal activities that would destabilize the economy. The bank accuses these people of being connected with unnamed western institutions opposed to Lukashenko that seek to privatize Belarusian state property by selling it to Baltic and Polish interests. Djem Bank speculates this is being done to aid Belarus' political opposition. As part of this long reaching plot, the bank announced GOB officials have conducted 141 searches of the bank since 1998, and provides pictures of armed and ski-masked government officials raiding the bank. Djem also complains CEO Tatarintsev has been arrested three other times since 2003, with all other charges being dismissed.

15. A reliable economic contact who claimed to have inside knowledge told Poloff that the GOB's actions against Djem Bank are an attempt to control easy credit in Belarus. He said that previously only two Belarusian banks, Djem Bank and Golden Taler Bank - both private and majority foreign owned, provided easy access to lines of credit to local and foreign companies. The GOB did not like this, as this credit remained outside GOB control. On June 22 Minsk police arrested Alexander Nelin, Chairman of the Board of Golden Taler Bank, on embezzlement charges (Article 210 Part 3 of the Criminal Code). According to our contact, since then Golden Taler has been more amenable to the GOB's wishes. Djem Bank did not surrender control to the GOB, so it is facing the current difficulties. [Note: according to NBB information, Golden Taler is listed as a "Belarus-British" bank, which is 74 percent foreign owned.]

And Djem Bank has a Buyer?

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16. Djem Bank is a private bank, owned 37.23 percent by Canadian interests, 33.12 percent by Latvian holders, 19.65 percent by private Belarusian individuals, and 10 percent by Russia's Institute of Economic Strategies. On September 6 Russian investor Alexey Senin, CEO of the Slavia Charity for Support of Orthodox Programs and editor of the weekly journal Russian Messenger, announced his plan to purchase a controlling stake in the bank. Under Belarus law a foreign investor needs permission from the NBB to buy more than 10 percent of a Belarusian bank. Djem Bank subsequently announced it was helping Senin prepare the necessary documents.

17. Comment: This story is unusual on many levels. In the Belarusian context, the most logical explanation is that the GOB is trying to control access to credit as well as the local banking sector. This certainly fits with other recent GOB actions (reftel). In that vein, it is possible Djem Bank's press statements are simply an attempt to curry favor with the Lukashenko regime by jumping on his "blame the West" bandwagon. However, as this story of persecution by a mysterious cabal also has the ring of the sorts of conspiracy theories often believed in the former Soviet Union, Djem Bank's management may believe it to be true. Even stranger is that anyone, let alone a foreigner, would decide to buy this bank as it faces such problems. It would make some sense if a Lukashenko crony suddenly appeared as a buyer, but in the past the GOB has been extremely reluctant to sell any assets to Russian buyers, unless the Russian buyer is a front for other GOB interests. In the murky world of Belarusian banking, it remains unclear for now what is happening.